

Washington Tax Structure Study  
Advisory Group Meeting  
October 24, 2001

Will Rice, Deputy Director of the Department of Revenue, opened the meeting by introducing Department of Revenue staff. He then gave a presentation on the charge of the Washington Tax Structure Study Committee and the role of the Advisory Group.

Sue Meldazy gave an overview of the first Washington Tax Structure Study Committee meeting which was held on October 15, 2001.

Julie Sexton spoke about the Department of Revenue's role in relationship to the Committee and the Advisory Group. She then led a discussion and brainstorming session on two issues: what's good about our current tax system and concerns about the current tax system. After the discussion, participants were asked to place a dot by what they consider the best feature of our current system and another dot by their greatest concern about the current system. The discussion items and number of dots they received are listed below.

What's good about the current system?

- No personal income tax (4 dots)
- No capital gains tax
- In good economic times, the tax system raises enough revenue -- sometimes even a surplus.
- Manufacturing growth/expansion sales and use tax exemption
- Sales tax exemption on food and prescription medicines (5 dots). Comment: Expand the exemption to include restaurant food -- today eating out is sometimes a necessity and not a luxury like it used to be.
- Wholesale electricity tax exemptions
- General predictability of excise taxes (1 dot). Comment: Taxpayers are able to estimate their liability fairly well.
- Uniformity (rate and no split roll) - property tax (10 dots)
- Fair market valuation - property tax (11 dots)
- Broad range of tax targets (1 dot). Comment: Our taxes are derived from many different sources.
- Simplicity of sales tax
- Paperwork less confusing than federal
- Sales tax = broad base of taxpayers (those who vote for government are paying for government)
- Sometimes the devil you know is better than the one you don't know (i.e. there may be worse systems).
- Simplicity of calculating the B&O tax

What are your concerns about the current system?

- There's a disconnect between public demand for increased services and the cost (and source of money) of providing those services. Comment: We want everything -- we just don't want to pay for it.
- Our tax system is too easily manipulated by the initiative process (1 dot).
- Lack of accountability on tax incentives/breaks (1 dot). Comment: Tax incentives/breaks for industry promise jobs but there is no accountability to see if the industry actually creates the jobs.
- Regressive (larger impact on low and moderate incomes) (1 dot)
- There is no income tax (4 dots).
- Appeals process - timeliness, objectivity/impartiality. Comment: This references the state tax system.
- Lack of consistent guidance on how to apply the rules
- Property taxes - shift in burden from business to homeowners (1 dot). Comment: The ratio used to be about 50/50, but now homeowners are taking more of the burden.
- Need to look at fees as taxes and how they are increased (1 dot).
- Dedicated funding mechanisms
- Restaurant food should be tax-exempt (1 dot).
- Irrational distinctions (e.g. 50% builds a stadium but need 60% to build a school or library)
- The laundry list of taxes, fees, excise taxes businesses collect (1 dot). Comment: There are many different taxes which businesses must account for and collect.
- Fails to provide ample, stable revenue for public schools and other fundamental government services such as basic human services (8 dots)
- Government fees
- B&O tax on gross revenue
- The property tax needs to be two-rate -- higher rate on land values, lower rate on buildings (1 dot).
- Lack of predictability (2 dots). Comment: Being able to provide services knowing there are resources to pay for them.
- Complexity of system makes vulnerable to "sound bite" initiatives
- Too much impact on the middle income families
- Disproportionate impact on business (4 dots)
- Lack of uniformity with neighboring states
- Local taxation of intellectual property. Comment: The state decided not to tax intellectual property, but the city of Seattle is talking about a B&O tax on intellectual property.
- Ambiguity between local jurisdictional interpretation for B&O taxes -- double taxation
- Too many local levies. Comment: The state isn't living up to its ability to support education as it should, so it's left up to local levies. It's unfair because rich districts can pass levies and poor districts can't, and education funding isn't even.
- Unfair supermajority requirement for school levies and bonds
- Lack of flexibility - increased use of dedicated funds
- Increased use of fees (1 dot)
- Lack of balance between urban and rural tax capacity
- Inequitable distribution of sales tax revenue (1 dot)
- Property tax exemptions need more frequent review.

- State programs are woefully underfunded, i.e. DSHS and education, both K-12 and higher education.
- Inequity of retail sales tax on in-state retailers vs. internet and catalog sales (2 dots)
- Disconnect between what taxes the public "sees" and the amount being paid in. Most people don't pay B&O - only business - yet it is an income tax on gross revenue for small business (2 dots).
- B&O on manufacturing is not apportioned on a "value added" basis (1 dot).
- Too susceptible to special interest exemptions/tax breaks
- Burden of taxes isn't related to ability to pay

Nicole Stewart handed out a homework assignment for the Advisory Group members. The assignment asks the participants to answer two questions: 1) From the perspective of the group that you represent, what works well in our current tax system, and 2) From the perspective of the group you represent, what are the problems with the current tax system? Nicole needs to receive the responses by November 1, 2001.

The notes from today's meeting will be posted on the web site by Monday, October 29, so that Advisory Group members can share the information with their organizations. The meeting handouts will also be posted to the web site.

It was asked if Advisory Group members attend Committee meetings, will there be opportunities to speak or would they just be observers. Will Rice answered that he wasn't sure at this time. He stated that a lot of the Committee meetings will have time set aside to be sure there is discussion among Committee members, but there is great interest in hearing from and knowing the concerns of the Advisory Group. He will find out when there are going to be opportunities for the Committee to hear directly from the Advisory Group. So far, the Committee meetings are information-gathering sessions.

It was asked whether the Committee meetings are open to the public. Will said yes -- these are all public meetings.

A comment was made that 12 three-hour meetings didn't seem like enough time for the Committee to meet, given the magnitude of the assignment. Will said that those are the meetings that have been scheduled at this time. There may be additional meetings, longer meetings, or some of the work may be done by subcommittees.

Will was asked whether staff reports or written materials that are prepared would also be given to the Advisory Group. He answered that most of the information that was presented at the first Committee meeting is on the Department of Revenue web site, and future information will also be posted to the web site.

It was asked whether TVW would telecast the Committee meetings. Will said the schedule of meetings is being made available to TVW; and they are welcome to cover the meetings if they choose.